

COVERT HOUSING COMMISSION
COVERT, MICHIGAN

FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
AND
REPORTS ON INTERNAL CONTROL AND
COMPLIANCE

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other			Local Government Name <i>Coverdoush Commission</i>		County
Audit Date <i>6/30/04</i>	Opinion Date <i>11/17/04</i>		Date Accountant Report Submitted to State: <i>1/5/05</i>		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<i>J</i>		
Reports on individual federal financial assistance programs (program audits).			<i>J</i>
Single Audit Reports (ASLGU).			<i>J</i>

Certified Public Accountant (Firm Name) <i>Barry E. Gaudette CPA, PC</i>			
Street Address <i>1107 E 8th Street</i>	City <i>Traverse City</i>	State <i>MI</i>	ZIP <i>49686</i>
Accountant Signature <i>Barry E. Gaudette, CPA</i>			

COVERT HOUSING COMMISSION
TABLE OF CONTENTS
June 30, 2004

	<u>Page</u>
<u>INDEPENDENT AUDITOR'S REPORT</u>	1-2
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)</u>	3-5
<u>FINANCIAL STATEMENTS</u>	
Combined Statement of Net Assets	6-7
Combined Statement of Activities	8
Combined Statement of Cash Flows	9-10
Notes to Financial Statements	11-19
<u>SUPPLEMENTAL INFORMATION</u>	
Combining Statement of Net Assets	20-21
Combining Statement of Activities	22
Combining Statement of Cash Flows	23-24
Schedule of Expenditures of Federal Awards and Notes to the Schedule of Federal Awards	25
Financial Data Schedule	26-29
<u>REPORT ON COMPLIANCE AND ON INTERNAL CONTROL</u>	30-31

INTRODUCTION

Barry E. Gaudette, CPA, P.C.

CERTIFIED PUBLIC ACCOUNTANT

1107 East Eighth Street
Traverse City, Michigan 49686
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Fax (231) 946-1377

Independent Auditor's Report

Board of Commissioners
Covert Housing Commission
Covert, Michigan

We have audited the accompanying statements of net assets of the Covert Housing Commission, Michigan (a component unit of the Township of Covert) as of June 30, 2004, and the related statements of revenues, expenses, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Housing Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Covert Housing Commission, Michigan, as of June 30, 2004, and the results of its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2004 on our consideration of Covert Housing Commission, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Covert Housing Commission
Independent Auditor's Report
Page Two

Management's Discussion and Analysis is not a required part of the financial statements, but is supplementary information the Government Accounting Standards Board requires. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion thereon.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Financial Data Schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Housing Commission. The accompanying Schedule of Expenditures of Federal Awards, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Bany E. Taulitt, CPA, PC

November 17, 2004

COVERT HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)

June 30, 2004

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The Covert Housing Commission, created in 1980, by the Township of Covert provides housing to meet the community's needs for affordable low-income housing. As management of the Housing Commission, we offer readers this narrative overview and analysis of the financial activities of the Housing Commission for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with the Housing Commission's financial statements.

Financial Highlights

The financial statements for Covert Housing Commission consists of two programs. The first is owned housing, consisting of 40 units of public housing and the second is the capital funding program. Covert Housing Commission had total revenues of \$256,118 that includes \$90,372 in rental payments and \$164,185 in federal assistance. Total operating expenses were \$200,909, that includes \$35,480 in administrative expenses, \$58,987 in ordinary maintenance expenses, and \$57,477 in depreciation expense.

The assets of the Housing Commission exceeded its liabilities at the close of the most recent year by \$558,573. The Housing Commission's total net assets increased by \$55,209 from the prior year.

Total assets of the Housing Commission were \$579,069 including \$165,816 of current assets and \$413,253 of net property, plant, and equipment assets. The Housing Commission had current liabilities of \$20,496.

Overview of the Financial Statements

The financial statements included in this annual report are those of a special-purpose government engaged only in a business-type activity. The following statements are included:

- * Statement of Net Assets - reports on the Housing Commission's current financial resources with capital and other assets and other liabilities.
- * Statement of Revenues, Expenses, and Changes in Fund Net Assets - reports the Housing Commission's operating and non-operating revenues, by major source along with operating and non-operating expenses and capital contributions.
- * Statement of Cash Flows - reports the Housing Commission's cash flows from operating, investing, capital, and non-capital activities.

COVERT HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
(CONTINUED)
June 30, 2004
=====

Financial Analysis of the Housing Commission

The following combined condensed balance sheets show a summary of changes for the years ended June 30, 2004 and 2003.

	<u>2004</u>	<u>2003</u>	<u>Net Change</u>
Current assets	\$ 165,816	\$ 110,994	\$ 54,822
Property and equipment	<u>413,253</u>	<u>406,900</u>	<u>6,353</u>
Total assets	<u>\$ 579,069</u>	<u>\$ 517,894</u>	<u>\$ 61,175</u>
Current liabilities	\$ 20,496	\$ 14,530	\$ 5,966
Total liabilities	<u>20,496</u>	<u>14,530</u>	<u>5,966</u>
Net assets:			
Invested in capital assets	413,253	376,776	36,477
Unrestricted net assets	<u>145,320</u>	<u>126,588</u>	<u>18,732</u>
Total net assets	<u>558,573</u>	<u>503,364</u>	<u>55,209</u>
Total liabilities and net assets	<u>\$ 579,069</u>	<u>\$ 517,894</u>	<u>\$ 61,175</u>

COVERT HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
(CONTINUED)
June 30, 2004

=====

Financial Analysis of the Housing Commission (continued)

The following table summarizes the Statement of Revenues, Expenses and Changes in Net Assets of the Housing Commission for the years ended June 30, 2004 and 2003.

	<u>2004</u>	<u>2003</u>	<u>Net Change</u>
Operating revenues:			
Dwelling rent	\$ 90,372	\$ 81,048	\$ 9,324
Total operating revenues	<u>90,372</u>	<u>81,048</u>	<u>9,324</u>
Operating expenses:			
Administration	35,480	34,463	1,017
Tenant services	1,389	1,099	290
Utilities	29,822	26,927	2,895
Ordinary maintenance and operation	58,987	57,559	1,428
General expenses	17,754	16,692	1,062
Depreciation	<u>57,477</u>	<u>56,425</u>	<u>1,052</u>
Total operating expenses	<u>200,909</u>	<u>193,165</u>	<u>7,744</u>
Operating income(loss)	<u>(110,537)</u>	<u>(112,117)</u>	<u>1,580</u>
Non-operating revenue (expense):			
Interest income	809	1,236	(427)
Operating grants	155,267	172,260	(16,993)
Capital grants	8,918		8,918
Other income	<u>752</u>	<u>819</u>	<u>(67)</u>
Total nonoperating revenue (expense)	<u>165,746</u>	<u>174,315</u>	<u>(8,569)</u>
Net income(loss)	<u>55,209</u>	<u>62,198</u>	<u>(6,989)</u>
Change in Net Assets	<u>\$ 55,209</u>	<u>\$ 62,198</u>	<u>\$ (6,989)</u>

FINANCIAL STATEMENTS

COVERT HOUSING COMMISSION
COMBINED STATEMENT OF NET ASSETS
June 30, 2004
=====

ASSETS

Current Assets:	
Cash	\$ 144,632
Accounts receivable-PHA projects	13,248
Accounts receivable-dwelling rents	820
Allowance for doubtful accounts	(164)
Prepaid expenses	<u>7,280</u>
Total Current Assets	<u>165,816</u>
Property, Plant, and Equipment:	
Land	21,676
Buildings	1,565,413
Equipment	65,059
Building improvements	286,260
Construction in progress	<u>8,918</u>
	1,947,326
Less: accumulated depreciation	<u>(1,534,073)</u>
Net Property, Plant, and Equipment	<u>413,253</u>
Total Assets	<u>\$ 579,069</u>

See notes to financial statements

COVERT HOUSING COMMISSION
COMBINED STATEMENT OF NET ASSETS (CONTINUED)
June 30, 2004
=====

LIABILITIES and NET ASSETS

Current Liabilities:	
Accounts payable	\$ 10,727
Tenant security deposit liability	8,698
Accrued expenses	896
Deferred revenues	<u>175</u>
Total Current Liabilities	<u>20,496</u>
Total Liabilities	<u>20,496</u>
Net Assets:	
Invested in capital assets	413,253
Unrestricted net assets	<u>145,320</u>
Total Net Assets	<u>558,573</u>
Total Liabilities and Net Assets	<u><u>\$ 579,069</u></u>

See notes to financial statements

COVERT HOUSING COMMISSION
COMBINED STATEMENT OF ACTIVITIES
Year Ended June 30, 2004
=====

OPERATING REVENUES:

Dwelling rent	\$ 90,372
Total operating revenues	<u>90,372</u>

OPERATING EXPENSES:

Administration	35,480
Tenant services	1,389
Utilities	29,822
Ordinary maintenance and operation	58,987
General expenses	17,754
Depreciation	<u>57,477</u>
Total operating expenses	<u>200,909</u>

Operating income(loss)	<u>(110,537)</u>
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NONOPERATING REVENUES AND (EXPENSES):

Investment interest income	809
Other income	752
Operating grants	155,267
Capital grants	<u>8,918</u>

Total nonoperating revenues(expenses)	<u>165,746</u>
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Net income(loss)	55,209
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Net assets, beginning	<u>503,364</u>
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Net assets, ending	<u><u>\$ 558,573</u></u>
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See notes to financial statements

COVERT HOUSING COMMISSION
COMBINED STATEMENT OF CASH FLOWS
Year Ended June 30, 2004
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Cash flows from operating activities:

Operating (loss)	\$(110,537)
Adjustments to reconcile operating (loss) to net cash (used in) operating activities:	
Depreciation	57,477
Bad debt allowance	83
Changes in assets and liabilities:	
(increase) decrease in assets:	
Accounts receivable	(406)
Prepaid expenses	294
Increase (decrease) in liabilities:	
Accrued wage/payroll taxes	443
Accounts payable-PILOT	4,772
Tenant security deposits	1,131
Deferred revenues	<u>(380)</u>
Net cash (used in) operating activities	<u>(47,123)</u>

**Cash flows from noncapital
financing activities:**

Operating grants	142,019
Other revenue	<u>752</u>
Net cash provided by noncapital financing activities	<u>142,771</u>

**Cash flows from capital and related financing
activities:**

Capital grants	8,918
Payments for capital acquisitions	<u>(63,831)</u>
Net cash (used in) capital and related financing activities	<u>(54,913)</u>

COVERT HOUSING COMMISSION
COMBINED STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended June 30, 2004
=====

Cash flows from investing activities:

Receipts of interest and dividends 809

Net cash provided by investing
activities 809

Net increase(decrease) in cash 41,544

Cash, beginning 103,088

Cash, ending \$ 144,632

Reconciliation of cash and cash equivalents per statement of cash
flows to the balance sheet:

Cash \$ 144,632
Restricted cash

Cash and cash equivalents per balance sheet \$ 144,632

See notes to financial statements

COVERT HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
=====

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Reporting Entity

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the Covert Housing Commission. The Covert Housing Commission is a component unit of the Township of Covert. The Housing Commission is a Public Housing Agency created by the Township of Covert on March 31, 1980, consisting of a five member board appointed by the Township Supervisor and charged with the responsibility to provide and service housing to meet the community's needs for affordable low-income housing. These financial statements include all of the resources and activities of the Covert Housing Commission over which the Housing Commission exercises operational control or which have financial significance to the Housing Commission.

Grants and Other Intergovernmental Revenues

The Housing Commission has entered into contracts with the U.S. Department of Housing and Urban Development (HUD). Under Contract C-8084, the Housing Commission constructed, maintains and operates 40 units of subsidized housing in the Township of Covert, Michigan.

Fund Accounting

The accounts of the Housing Commission are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, equity, revenues, and expenses. The Housing Commission's fund structure includes only proprietary funds. Under generally accepted accounting principles, proprietary funds are grouped into two broad categories - enterprise and internal service funds. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered through user charges; or (b) where laws or regulations require that the activity's costs of providing services including capital costs (such as depreciation or debt service) be recovered with fees and charges rather than with taxes and similar revenues. All of the Housing Commission's funds are operated as enterprise type proprietary funds whereby costs of services are to be recovered through user charges or subsidies from other governmental units.

COVERT HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004
=====

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus. The Housing Commission's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Under the economic resources measurement focus, all assets and all liabilities (whether current or noncurrent) are included in the statement of net assets of the individual funds. Their reported net assets are segregated into invested capital assets and unrestricted net assets components. Operating statements present increases (revenues) and decreases (expenses) in net assets.

Under the accrual basis of accounting, all revenues are recorded when earned, regardless of when received, and all expenses are recorded when a liability is created, regardless of when paid.

In accordance with Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the City of Covert has elected to apply only those Financial Accounting Standards Board Statements issued prior to November 30, 1989 to its proprietary funds and to the proprietary funds of its component units.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Housing Commission considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Insurance

The premiums on all major insurance policies are charged to prepaid insurance and amortized over the life of the policy.

Budgets and Budgetary Accounting

The Housing Commission is required under each of its HUD contracts to adopt an annual operating budget which must be approved by HUD. Budgetary data and comparison of actual and planned performance is reported directly to HUD based on specific program reporting requirements.

COVERT HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004
=====

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables

All receivables are reported at their net value, reflecting where appropriate, by the estimated portion that is expected to be uncollectible. The Housing Commission estimates the uncollectible portion of tenant rents as a percentage of gross tenant rents using prior collection experience.

Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds. Receivables and payables arising from these transactions are classified as "due from other funds" and "due to other funds" on the statement of net assets.

Fixed Asset Capitalization

Fixed assets with a cost to acquire or construct of \$500 or more are capitalized and depreciated over their estimated useful lives. Depreciation is provided on a straight-line basis using the following estimate of useful lives:

Buildings	20 - 40 years
Furniture, equipment and machinery	5 - 7 years
Building improvements	7 years

Net Assets

The Housing Commission classifies its net assets as follows:

- a. Invested in capital assets represents pre-2001 contributions from grants, HUD notes, and other aids for capital acquisitions and improvements.
- b. Unrestricted net assets indicate that portion of net assets which is available for use in future periods.

Operating Revenues and Expenses

The Housing Commission includes in operating revenues resources that are derived or received from exchange transactions. Resources derived principally from non-exchange transactions are excluded from operating income. Operating expenses include the cost of providing services, excluding depreciation. Depreciation, amounts expended for capital additions and amounts expended for retirement-of-debt are excluded from operating expenses. Depreciation expense is charged to invested in capital assets rather than unrestricted net assets.

COVERT HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004
=====

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of management estimates. The Housing Commission uses estimates of useful lives of its fixed assets and other estimates in preparing its financial statements. Actual results may differ from the Housing Commission's estimates.

Vacation and Sick Leave

The Housing Commission allows permanent employees to accumulate the following compensated absences:

- * Vacation leave, not taken by employees may be accumulated not to exceed thirty (30) days. An employee who is separated shall receive a one-time payment, minus regular deductions, for unused accumulated vacation leave at his/her current rate of pay.
- * Sick leave, an employee is eligible to receive fifty percent (50%) of his/her accumulated sick leave upon death or retirement; payment will be made at the employee's most current rate of pay; not to exceed thirty-five (35) days.
- * Personal leave, there is not a policy for personal leave.

The amount of accumulated benefits at June 30, 2004, was not recorded as a liability in the applicable funds, but was an immaterial amount.

Post Employment Benefits

The provision for pension cost is recorded on an accrual basis, and the Commission's policy is to fund pension costs as they accrue.

Income Taxes

As a component unit of a Michigan home rule city, the Housing Commission is exempt from federal and state income taxes. The Housing Commission has no unrelated business income.

COVERT HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004
=====

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

NOTE 2: CASH AND INVESTMENTS

The Housing Commission maintains cash and investment accounts in the Low Rent Program.

HUD authorizes the Housing Commission to invest in certificates of deposit, money-market funds, United States government securities, and repurchase agreements fully collateralized by United States government securities.

The Housing Commission's investments are categorized below to give an indication of the level of risk assumed by the entity at year end.

Category 1: Includes deposits that are insured, registered, or for which the collateral securities are held by the Housing Commission or its agent in the Housing Commission's name. This includes FDIC or equivalent insurance coverage.

Category 2: Includes deposits for which the collateral securities are held by the dealer's trust department or agent in the Housing Commission's name.

Category 3: Includes all uninsured and uncollateralized deposits.

For all deposits shown below, the market value at the balance sheet date is substantially the same as the carrying value. The difference between the bank balance and carrying value is due to outstanding checks and/or deposits in transit. At various times during the year, the Housing Commission's deposits may have been higher than the June 30, 2004, balances detailed below. This means that the Housing Commission's risk and exposure could have been higher at these times. The Housing Commission had no significant type of deposits during the year not included below.

COVERT HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004
=====

NOTE 2: CASH AND INVESTMENTS (continued)

<u>Depository Balances by Category</u>					<u>Carrying Value</u>
<u>Depository</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>Total</u>	
Sturgis Bank & Trust	\$121,965	\$	\$	\$ 121,965	\$ 119,295
Fifth Third Bank	<u>25,237</u>			<u>25,237</u>	<u>25,237</u>
Total Deposits	<u>\$147,202</u>	<u>\$</u>	<u>\$</u>	<u>\$ 147,202</u>	144,532
Change fund					50
Petty cash					<u>50</u>
					<u>\$ 144,632</u>
<u>Reconciliation to Cash on Balance Sheet</u>					
Cash					\$ 144,632
Investments					-
Restricted cash					<u>-</u>
Total					<u>\$ 144,632</u>

NOTE 3: RECEIVABLES AND PAYABLES

Tenant Accounts Receivable

Tenant accounts receivable are recorded at gross amount and reduced by the estimated amount uncollectible. At June 30, 2004, the receivables were \$820 with \$164 estimated as uncollectible. Bad debt expense was \$164.

Accounts Receivables - HUD

Amounts due from HUD represents funding due the Housing Commission for actual expenses for the programs financed. Balances at June 30, 2004 were as follows:

Low Rent Program	\$ 13,248
Capital Fund Program	<u> </u>
Total	<u>\$ 13,248</u>

COVERT HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004
=====

NOTE 3: RECEIVABLES AND PAYABLES (continued)

Inter-fund Receivables, Payables, and Transfers

Interfund receivables and payables are recorded as "due from other programs" and "due to other programs".

There were no interfund receivables and payables as of June 30, 2004.

Individual fund operating transfers during the fiscal year are as follows:

<u>Receiving Fund</u>	<u>Paying Fund</u>	<u>Amount</u>
Low Rent Program	Capital Fund Program	<u>\$ 82,083</u>

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004 was as follows:

	<u>Balance</u> <u>06/30/03</u>	<u>Additions/Retirements/</u> <u>Transfers</u>	<u>Balance</u> <u>06/30/04</u>
Low Rent Program			
Land	\$ 21,676	\$	\$ 21,676
Buildings	1,565,413		1,565,413
Furniture, equip. & machinery - dwellings	31,814		31,814
Furniture, equip. & machinery - administration	25,882	7,363	33,245
Building improvements	<u>238,710</u>	<u>47,550</u>	<u>286,260</u>
	1,883,495	<u>\$ 54,913</u>	<u>1,938,408</u>
Less accumulated depreciation	(<u>1,476,595</u>)	<u>\$ (57,478)</u>	<u>(1,534,073)</u>
Total	<u>\$ 406,900</u>		<u>\$ 404,335</u>

Capital Fund Program

Construction in progress	<u>\$</u>	<u>\$ 8,918</u>	<u>\$</u>	<u>\$ 8,918</u>
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COVERT HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004
=====

NOTE 5: INVESTED IN CAPITAL ASSETS

The following is a summary of the activity in the Invested in Capital Assets account:

	<u>Invested in Capital Assets</u>
Balance, beginning	\$ 376,776
Adjustment	<u>27,559</u>
Balance, ending	<u>\$ 404,335</u>

NOTE 6: POST EMPLOYMENT BENEFITS

The Housing Commission does not provide a pension plan for eligible full-time employees.

NOTE 7: CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Housing Commission operates in a heavily regulated environment. The operations of the Housing Commission are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice to inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

NOTE 8: RISK MANAGEMENT AND LITIGATION

The Housing Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters for which it obtains coverage from commercial companies. The Housing Commission has had no settled claims resulting from these risks that exceed their commercial coverage in the current year or the three prior fiscal years.

COVERT HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004
=====

NOTE 9: SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The Housing Commission maintains three Enterprise Funds which provide housing assistance and grant programs. Segment information for the year ended June 30, 2004, was as follows:

	<u>Low Rent Program</u>	<u>Capital Fund Program</u>
Operating revenue	\$ 90,372	\$
Operating expenses	200,909	
Operating(loss)	(110,537)	
Depreciation	57,477	
Operating grants	73,184	82,083
Capital grants		8,918
Operating transfers	82,083	(82,083)
Net income(loss)	46,291)	8,918
Plant, property, and equipment:		
Additions	54,913	8,918
Working capital	145,320	
Total assets	570,151	8,918
Change in net assets	46,291	8,918
Beginning net assets	503,364	
Ending net assets	549,655	8,918

SUPPLEMENTARY INFORMATION

COVERT HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS
 June 30, 2004
 =====

C-8084 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
--	---

ASSETS

Current assets:

Cash	\$ 144,632	\$
Accounts receivable-PHA projects	13,248	
Accounts receivable-dwelling rents	820	
Allowance for doubtful accounts	(164)	
Prepaid expenses	<u>7,280</u>	
Total current assets	<u>165,816</u>	

Property, plant, and equipment:

Land	21,676	
Buildings	1,565,413	
Equipment	65,059	
Building improvements	286,260	
Construction in progress	<u>8,918</u>	
	1,938,408	<u>8,918</u>
Less accumulated depreciation	<u>(1,534,073)</u>	

Net property, plant and
equipment

Total Assets

<u>404,335</u>	<u>8,918</u>
<u>\$ 570,151</u>	<u>\$ 8,918</u>

Totals

\$ 144,632
13,248
820
(164)
7,280

165,816

21,676
1,565,413
65,059
286,260
8,918
1,947,326
(1,534,073)

413,253

\$ 579,069

COVERT HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS (CONTINUED)
June 30, 2004
=====

C-8084 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
--	---

LIABILITIES and NET ASSETS

Current liabilities:

Accounts payable	\$ 10,727	\$
Tenant security deposit liability	8,698	
Accrued expenses	896	
Deferred revenues	<u>175</u>	

Total current liabilities	<u>20,496</u>	
---------------------------	---------------	--

Total liabilities	<u>20,496</u>	
-------------------	---------------	--

Net assets:

Invested in capital assets	404,335	8,918
Unrestricted net assets	<u>145,320</u>	

Total net assets	<u>549,655</u>	<u>8,918</u>
------------------	----------------	--------------

Total Liabilities and Net Assets	<u>\$ 570,151</u>	<u>\$ 8,918</u>
----------------------------------	-------------------	-----------------

Totals

\$ 10,727
8,698
896
175

20,496

20,496

413,253
145,320

558,573

\$ 579,069

COVERT HOUSING COMMISSION
**COMBINING STATEMENT OF REVENUE, EXPENSES AND
 CHANGES IN NET ASSETS**
 Year Ended June 30, 2004
 =====

	C-8084 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
OPERATING REVENUES:		
Dwelling rent	\$ <u>90,372</u>	\$ _____
Total operating revenues	<u>90,372</u>	_____
OPERATING EXPENSES:		
Administration	35,480	
Tenant services	1,389	
Utilities	29,822	
Ordinary maintenance and operation	58,987	
General expenses	17,754	
Depreciation	<u>57,477</u>	_____
Total operating expenses	<u>200,909</u>	_____
Operating income(loss)	(<u>110,537</u>)	_____
NONOPERATING REVENUES AND (EXPENSES):		
Investment interest income	809	
Other income	752	
Operating grants	73,184	82,083
Capital grants		8,918
Operating transfers in (out)	<u>82,083</u>	(<u>82,083</u>)
Total nonoperating revenues (expenses)	<u>156,828</u>	<u>8,918</u>
Net income(loss)	46,291	8,918
Net assets, beginning	<u>503,364</u>	_____
Net assets, ending	<u>\$ 549,655</u>	<u>\$ 8,918</u>

Totals

\$ 90,372

90,372

35,480

1,389

29,822

58,987

17,754

57,477

200,909

(110,537)

809

752

155,267

8,918

165,746

55,209

503,364

\$ 558,573

COVERT HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS
Year Ended June 30, 2004
=====

	C-8084 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
Cash flows from operating activities:		
Operating(loss)	\$(110,537)	\$
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:		
Depreciation	57,477	
Bad debt allowance	83	
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	(406)	
Prepaid expenses	294	
Increase (decrease) in liabilities:		
Accrued wage/payroll taxes	443	
Accounts payable-PILOT	4,772	
Tenant security deposits	1,131	
Deferred revenues	<u>(380)</u>	
Net cash (used in) operating activities	<u>(47,123)</u>	
Cash flows from noncapital financing activities:		
Operating grants	59,936	82,083
Operating transfers in (out)	82,083	(82,083)
Other revenue	<u>752</u>	
Net cash provided by noncapital financing activities	<u>142,771</u>	
Cash flows from capital and related financing activities:		
Capital grants		8,918
Payments for capital acquisitions	<u>(54,913)</u>	<u>(8,918)</u>
Net cash (used in) capital and related financing activities	<u>(54,913)</u>	

Totals

\$ (110,537)

57,477
83

(406)
294

443
4,772
1,131
(380)

(47,123)

142,019

752

142,771

8,918
(63,831)

(54,913)

COVERT HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
 Year Ended June 30, 2004
 =====

	C-8084 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
Cash flows from investing activities:		
Receipts of interest and dividends	<u>809</u>	<u> </u>
Net cash provided by investing activities	<u>809</u>	<u> </u>
Net increase(decrease) in cash	41,544	
Cash, beginning	<u>103,088</u>	<u> </u>
Cash, ending	<u>\$ 144,632</u>	<u>\$ </u>

Reconciliation of cash and cash equivalents per statement of cash flows to the balance sheet:

Cash	\$ 144,632	\$
Restricted cash	<u> </u>	<u> </u>
Cash and cash equivalents per balance sheet	<u>\$ 144,632</u>	<u>\$ </u>

Totals

809

809

41,544

103,088

\$ 144,632

\$ 144,632

\$ 144,632

COVERT HOUSING COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND NOTES TO THE SCHEDULE OF FEDERAL AWARDS
Year Ended June 30, 2004
=====

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year	Federal Grantor	CFDA No.	Expenditures
	<u>U.S. Department of HUD</u>		
	<u>Public and Indian Housing Nonmajor - Direct Program</u>		
2004	Low Rent Public Housing	14.850	\$ 73,184
	<u>Public and Indian Housing Nonmajor - Direct Program</u>		
2004	Capital Fund Program	14.872	<u>91,001</u>
	Total		<u>\$ 164,185</u>

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

NOTE 1: Significant Accounting Policies

The schedule of federal awards has been prepared on the
accrual basis of accounting.

CFDA = Catalog of Federal Domestic Assistance

COVERT HOUSING COMMISSION

FINANCIAL DATA SCHEDULE

Year Ended June 30, 2004

=====

FDS Line Item No.		C-8084 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	ASSETS		
	Current Assets:		
	Cash:		
111	Cash-unrestricted	\$ 144,632	\$
100	Total cash	<u>144,632</u>	
	Receivables:		
121	A/R-PHA projects	13,248	
126	A/R-tenants-dwelling rents	820	
126.1	Allowance for doubtful accounts-dwelling rents	(164)	
120	Total receivables, net of allowance for doubtful accounts	<u>13,904</u>	
	Other Current Assets:		
142	Prepaid expenses and other assets	<u>7,280</u>	
	Total other current assets	<u>7,280</u>	
150	Total current assets	<u>165,816</u>	
	Noncurrent Assets:		
	Fixed Assets:		
161	Land	21,676	
162	Buildings	1,565,413	
163	Furniture, equipment & machinery-dwellings	31,814	
164	Furniture, equipment & machinery-administration	33,245	
165	Building improvements	286,260	
166	Accumulated depreciation	(1,534,073)	
167	Construction in progress		<u>8,918</u>
160	Total fixed assets, net of accumulated depreciation	<u>404,335</u>	<u>8,918</u>
180	Total noncurrent assets	<u>404,335</u>	<u>8,918</u>
190	Total Assets	<u>\$ 570,151</u>	<u>\$ 8,918</u>

Totals

\$ 144,632

144,632

13,248
820

(164)

13,904

7,280

7,280

165,816

21,676
1,565,413

31,814

33,245
286,260
(1,534,073)
8,918

413,253

413,253

\$ 579,069

COVERT HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended June 30, 2004
 =====

FDS Line Item No.		C-8084 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
LIABILITIES AND EQUITY/NET ASSETS			
	Liabilities:		
	Current Liabilities:		
321	Accrued wage/payroll taxes payable	\$ 896	\$
333	Accounts payable-other government	10,727	
341	Tenant security deposits	8,698	
342	Deferred revenues	<u>175</u>	
310	Total current liabilities	<u>20,496</u>	
300	Total liabilities	<u>20,496</u>	
	Equity:		
508.1	Invested in capital assets	<u>404,335</u>	<u>8,918</u>
508	Total equity	404,335	8,918
	Net Assets:		
512.1	Unrestricted net assets	<u>145,320</u>	
513	Total net assets	<u>549,655</u>	<u>8,918</u>
600	Total Liabilities and Equity/Net Assets	<u>\$ 570,151</u>	<u>\$ 8,918</u>

Totals

\$ 896

10,727

8,698

175

20,496

20,496

413,253

413,253

145,320

558,573

\$ 579,069

COVERT HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended June 30, 2004
 =====

FDS Line Item No.		C-8084 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	Revenue:		
703	Net tenant rental revenue	\$ 90,372	\$
705	Total tenant revenue	90,372	
706	HUD PHA grants	73,184	82,083
706.1	Capital grants		8,918
711	Investment income-unrestricted	809	
715	Other revenue	<u>752</u>	
700	Total revenue	<u>165,117</u>	<u>91,001</u>
	Expenses:		
	Administrative:		
911	Administrative salaries	16,900	
912	Auditing fees	1,700	
915	Employee benefit contributions-adm.	5,035	
916	Other operating-administrative	11,845	
	Tenant Services:		
924	Tenant services-other	1,389	
	Utilities:		
931	Water	13,213	
932	Electricity	6,835	
933	Gas	9,774	
	Ordinary maintenance and operation:		
941	Ordinary maint & oper-labor	16,141	
942	Ordinary maint & oper-mat'ls & other	9,156	
943	Ordinary maint & oper-contract costs	28,852	
945	Employee benefit contributions- ordinary maintenance	4,838	
	General expenses:		
961	Insurance premiums	11,702	
963	Payments in lieu of taxes	5,888	
964	Bad debt-tenant rents	<u>164</u>	
969	Total operating expenses	<u>143,432</u>	
970	Excess operating revenue over operating expenses	<u>21,685</u>	<u>91,001</u>

Totals

\$ 90,372
90,372
155,267
8,918
809
752
256,118

16,900
1,700
5,035
11,845

1,389

13,213
6,835
9,774

16,141
9,156
28,852

4,838

11,702
5,888
164

143,432

112,686

COVERT HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended June 30, 2004
 =====

FDS Line Item No.		C-8084 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	Expenses continued:		
	Other expenses		
974	Depreciation expense	<u>57,477</u>	<u> </u>
	Total other expenses	<u>57,477</u>	<u> </u>
900	Total expenses	<u>200,909</u>	<u> </u>
	Excess (deficiency) of operating revenue over(under) expenses before other financing sources (uses)	(35,792)	91,001
	Other Financing Sources(Uses):		
1001	Operating transfers in (out)	<u>82,083</u>	<u>(82,083)</u>
1000	Excess (deficiency) of operating revenue over(under) expenses	46,291	8,918
1103	Beginning Net Assets	<u>503,364</u>	<u> </u>
	Ending Net Assets	<u>\$ 549,655</u>	<u>\$ 8,918</u>

Totals

57,477

57,477

200,909

55,209

55,209

503,364

\$ 558,573

Barry E. Gaudette, CPA, P.C.

CERTIFIED PUBLIC ACCOUNTANT

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Traverse City, Michigan 49686
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**Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of
Financial Statements Performed in Accordance
with Government Auditing Standards**

Board of Housing Commissioners
Covert Housing Commission
Covert, Michigan

We have audited the financial statements of the Covert Housing Commission, Michigan, (Housing Commission) as of and for the year ended June 30, 2004, and have issued our report thereon dated November 17, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Housing Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Housing Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk

Report on Compliance and on Internal Control
In Accordance with Government Auditing Standard
Covert Housing Commission
Page Two

Internal Control Over Financial Reporting - Continued

that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. We have noted other matters involving the internal control over financial reporting that we have reported to management of the Housing Commission in a separate letter dated November 17, 2004.

This report is intended solely for the information and use of the audit committee, Board of Housing Commissioners, management, others within the organization, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Barry E. Sandlett, CPA, PC

November 17, 2004

COVERT HOUSING COMMISSION
INDEPENDENT AUDITORS' REPORTS
ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE/BOARD OF COMMISSIONERS
AND
MANAGEMENT ADVISORY COMMENTS

JUNE 30, 2004

COVERT HOUSING COMMISSION
CONTENTS
JUNE 30, 2004

	<u>Page</u>
Independent Auditors' Report on Communications With the Audit Committee/Board of Commissioners	1-2
Independent Auditors' Report on Management Advisory Comments	3
Management Advisory Comments	4-6
Adjusting Journal Entries	7

Barry E. Gaudette, CPA, P.C.

CERTIFIED PUBLIC ACCOUNTANT

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**INDEPENDENT AUDITORS' REPORT ON
COMMUNICATIONS WITH THE AUDIT COMMITTEE/
BOARD OF COMMISSIONERS**

To the Board of Commissioners
Covert Housing Commission

We have audited the financial statements of the Covert Housing Commission ("Housing Commission") as of and for the year ended June 30, 2004, and have issued our report, thereon, dated November 17, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we communicate certain matters to your audit committee or its equivalent. These communications are reported in the following paragraphs.

Auditors' Responsibilities Under Auditing Standards Generally Accepted in the United States of America - In planning and performing our audit of the financial statements, we considered your internal control in order to determine our auditing procedures for purposes of expressing our opinion on the financial statements and not to provide assurance on your internal control. Also, an audit conducted under auditing standards generally accepted in the United States of America is designed to obtain a reasonable, rather than absolute, assurance about the financial statements.

Significant Accounting Policies - The significant accounting policies used in the preparation of your financial statements are discussed in Note 1 to the financial statements. There were no audit adjusting journal entries and no controversial accounting issues.

Management Judgments and Accounting Estimates - Significant management judgments and accounting estimates are disclosed in the notes to the financial statements.

Other Information in Documents Containing Audited Financial Statements - All the information included in the financial statements document has been audited and our responsibilities are addressed in the Independent Auditors' Report.

**INDEPENDENT AUDITORS' REPORT ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE - CONTINUED**

Audit Adjustments - For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Housing Commission's financial reporting process (that is, cause future financial statements to be materially misstated). The attached audit adjustments, in our judgment, indicate matters that could have a significant effect on the Housing Commission's financial reporting process (see page 7 showing the audit adjusting journal entries).

Disagreements With Management - For purposes of this letter, professional accounting standards define disagreement with management as a matter concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the audit.

Consultations With Other Accountants - To our knowledge, management has not consulted with other accountants regarding auditing and accounting matters.

Major Issues Discussed With Management Prior to Retention - There was no discussions regarding the application of accounting principles or auditing standards with management prior to our retention as your auditor.

Difficulties Encountered in Performing the Audit - There were no difficulties encountered in performing the audit. The staff was very cooperative and helpful.

This report is intended solely for the information and use of the audit committee or its equivalent and management and is not intended to be and should not be used by anyone other than these specified parties.

We shall be pleased to discuss any of the matters referred to in this letter. Should you desire more information on the above communications, we would welcome the opportunity to discuss them with you.

Barry E. Landolt, CPA, PC

November 17, 2004

Barry E. Gaudette, CPA, P.C.

CERTIFIED PUBLIC ACCOUNTANT

1107 East Eighth Street
Traverse City, Michigan 49686
(231) 946-8930
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**INDEPENDENT AUDITORS' REPORT ON
MANAGEMENT ADVISORY COMMENTS**

To the Board of Commissioners
Covert Housing Commission

We have audited the financial statements of the Covert Housing Commission ("Housing Commission") as of and for the year ended June 30, 2004, and have issued our report, thereon, dated November 17, 2004. We have also issued compliance reports and reports on the internal control in accordance with *Government Auditing Standards*. These reports disclosed no material instances of noncompliance, weaknesses and reportable conditions.

Other matters involving the Housing Commission's operations and internal control, which came to our attention during the audit, are reported on the following pages as management advisory comments.

We would like to take this opportunity to acknowledge the many courtesies extended to us by the Housing Commission's personnel during the course of our work.

We shall be pleased to discuss any of the matters referred to in this letter. Should you desire assistance in implementing any of the following suggestions, we would welcome the opportunity of assisting you in these matters.

Barry E. Gaudette, CPA, P.C.

November 17, 2004

COVERT HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS
June 30, 2004
=====

Tenant Accounting Software

The Housing Commission has been posting tenant rents by hand on tenant ledger cards.

We recommend that the Housing Commission invest the funds necessary to purchase tenant accounting software as soon as possible. This software will provide an additional internal control for the receipt of monies.

Cash Collections

Tenants currently can pay their rents by cash, check or money order.

We recommend that the Housing Commission consider not allowing payments by cash. This would provide another internal control in the collection of assets.

Tenant Deposits

The deposit ticket is not reviewed by someone other than the employee that makes the deposit.

We recommend that the Housing Commission have one other employee be involved in this process. The additional employee could review the deposit ticket and then after the deposit ticket receipt is brought back, this employee should review that the deposit is the correct amount and also initial the deposit ticket receipt.

Depositing of Checks

Tenants occasionally will request that their check not be deposited until they have money to cover the check.

The Housing Commission should have a policy of depositing checks as soon as they are in receipt of them. It is the tenants responsibility to present checks that are good.

COVERT HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS (CONTINUED)
June 30, 2004
=====

Contract Labor

The Housing Commission's part-time office help has been paid as contract labor rather than as an employee.

Any individual that is not self-employed or hired from an employment agency on a temporary basis should be paid as an employee.

Safe Combination

The Housing Commission has a safe that only the Executive Director knows the combination to. The combination number is also in a sealed envelope at the Township Hall.

The Executive Director should, at least once a year, check the envelope at the Township Hall to be sure the envelope is still sealed.

Check List Provided Board of Commissioners

Management provides the Board of Commissioners a list of checks paid during the month, but voided checks are not on the list.

We recommend that the check listing provided the Board include voided checks, so that all check numbers are accounted for.

Certificate of Deposits

The Housing Commission does not have any Certificate of Deposits, and there is not a policy in place that requires two signatures to start or cash in a Certificate of Deposit.

We recommend that the Housing Commission adopt a resolution that would require two signatures to open up a certificate of deposit or to cash in a certificate of deposit. This policy would provide another internal control for the safe guarding of assets in the future if a Certificate of Deposit is purchased.

COVERT HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS (CONTINUED)
June 30, 2004
=====

Invoices attached to Check Copies

During our audit procedures of disbursements, we found that invoices were not attached to the check copy.

We recommend that all check disbursements have the original invoice attached to the check copy.

Checks

The check preparation is not done in advance of the Board Meetings.

We recommend that the checks be prepared in advance of the Board Meetings and that the checks be approved and signed at the meeting. A list of the checks should be made available along with the invoices.

Debit Card

The Housing Commission recently purchased a debit card.

We recommend that the Housing Commission switch from a debit card to a credit card for improved controls.

COVERT HOUSING COMMISSION
ADJUSTING JOURNAL ENTRIES
June 30, 2004

=====

<u>Account #</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
LOW RENT PROGRAM			

There are no adjusting journal entries.